SWBT does not recommend any changes to USF recovery by small LECs. However, assuming that the USF must be modified, a change which would have the most direct impact on the USF would be to decrease the number of large companies that are eligible to receive support. For example, changes could be made to USF rules (FCC Part 36) that would make Tier 1 companies, those with annual revenues more than $100M, ineligible to receive USF support. This change would decrease the fund size by approximately $300M - $400M per year.

See Tab 6B of this binder for more information related to this subject.

4) Should DEM weighting be modified?

The current mechanism is simple and if politically sustainable, the costs assigned to interstate associated with the DEM weighting should not be modified. However, an alternative recovery option could be implemented. These costs could be bulk billed to IXCs rather than included in the local switching MOU rate of individual LECs. This action will reduce the supposed pressure by IXC's to geographically deaverage toll rates.

NECA previously estimated that a bulk-billing charge to IXC's would be a monthly charge of $0.1704 per industry PSL or a monthly charge $.0008 per industry MOU.

Finally, if politically necessary, each of the long term solutions identified and being evaluated by the USTA TS Rate Disparity Work Group described below could be further evaluated.

a) RECOVERY MECHANISM FOR HIGHER FIXED COST (HFC) IN LOW VOLUME SWITCHES

Establish Fixed Cost and Variable Cost Allocations of Switching, stratified by size of switch (500 lines, 1000 lines, etc.) and manufacturer (Northern Telecom, Siemens S-C, Vidar, etc.).

The Fixed Cost portion could be assigned to Common Line or a separate element with the variable cost portion of revenue requirement recovered through TS rates.

The following table illustrates the relationship of switching costs to line size for a new model of digital switch.

Normalized Switching Cost Relationships by Line Size*

Lines Served by Digital Switch	With Equal Access	With Equal Access and SS7
100	15.8	18.4
500	3.8	4.3
1,000	2.4	2.6
10,000	1.0	1.0

* In order to protect the proprietary nature of the manufacturer's cost per line, the cost relationships are all normalized, with a 1.0 representing the costs of a switch serving 10,000 access lines without equal access or SS7.

b) BENCHMARK RATE

Establish a nationwide (or regional or Zone 1/Zone 2) average switched access cost per minute as a benchmark, then identify study area revenue requirements above a percentage threshold over the average (e.g., 150%).

While this method presents a means of simple, straightforward administration and could work well with smaller, relatively homogenous study areas, without a view from a zone pricing perspective it would not target support well for low density exchange areas of large study areas.

c) MODIFIED USF

One proposal is to combine Local Switching (and transport) costs with the existing loop cost formula. While not administratively complex, and straightforward to administer, this proposal does not overcome noteworthy shortcomings. First, this approach serves to disrupt existing targeting of USF support. Second, it does not target support well for low density exchange areas of large study areas. Further, it does not recognize the lower minutes per line in low density areas which contribute to higher costs per minute.

d) IDENTIFICATION OF PUBLIC POLICY COSTS

One other option could involve movement of a portion of traffic sensitive switching costs to a common line or public policy element. Identification of the actual revenue requirements to be moved could be done in several ways.

The costs to be transferred could include the DEM weighting dollars and/or some of the non-direct costs resulting from the separations process. A second approach would be to set NECA TS rates at the national average of the Tier 1 rates and transfer the residual revenue requirements to the Common Line/Public Policy element. This would be similar to the current method used to establish pool carrier common line rates.

e) REDUCTION OF DEM WEIGHTING FACTORS

See Tabs 6A and 6C of this binder for more information related to this subject.

5) Should there be an expense adjustment for rural TS costs?

Not for small LECs. The DEM weighting allocation for small companies already allocates a significant amount of investment to the interstate jurisdiction and the associated expenses will follow the investment within the separations process. Therefore, an additional expense adjustment for small LECs is not needed.

It is possible that an expense adjustment or support mechanism may be needed for large LEC rural area costs if sufficient rate rebalancing is not allowed (see Answer 1).

6) Should there be an SLC increase?

An SLC increase should be considered and SWBT would support it as a short term solution. The level of increase will certainly have to be weighed against the political salability and the potential competitive threat posed by local exchange competitors (CATV, etc.). By moving Common Line cost recovery to the end user, the rates for interstate switched access services could be reduced.

7) Who should be eligible for funding?

- **End users and/or companies?** **Both**
- **Should USF be redirected?** **See # 3 Above**

Both end users and companies should be eligible to receive support. The LECs must be permitted to recover the costs they have already incurred to build the universally available network required to fulfill Universal Service obligations. First, companies should be given the regulatory flexibility to rebalance and deaverage rates in order to be competitive and to recover the costs to provide Universal Service. If pricing flexibility is limited, then the Universal Service provider should be permitted to recover the remainder of its costs from an explicit support mechanism. If after this process is completed there are still certain end users who cannot afford telephone service, then these end users should have assistance available to them, based on a financial needs test, in the form of a credit on their monthly bill.

- **Should new entrants be eligible? NO**

New entrants should not be eligible for support. If the level of regulation is not equal then the new entrants should not be permitted to obtain support for the provision of Universal Service. In no way should new entrants be permitted to select only the customers they wish to serve and then also be permitted to obtain support. Again, the LECs must be permitted to recover the costs they have already incurred to fulfill current Universal Service obligations. LECs provide the universally available network and also have the Universal Service carrier of last resort obligations. Other entrants have not and likely will not expend the costs (which the LECs have) to build a ubiquitous network for all. Consequently they have no right to current universal service support.

New entrants should have access to support only if: they are governed by the same rules and regulations as the incumbent providers (LECs); they are required to provide a ubiquitous network to all customers in the LECs' service area against whom they will compete; and they must fulfill all carrier of last resort obligations, etc., on an equal basis. New entrants should not have access to support if they are given some form of regulatory freedom which is not available to the LECs.

See Tabs 6E and 6F of this binder for more information related to this subject.

8) Who should provide the funding and on what basis?

- **Traditional payers, new entrants?**
- **PSLs, revenues, net trans?**

Universal Service support should be funded by all providers of telecommunications services to end users. This would appropriately exclude revenues or minutes of use (MOU), provided indirectly to end users (e.g., LEC access revenues or MOU) and would eliminate any double counting problems. It would include all revenues or MOU, etc., from services provided directly to an end user. Further, Carriers who are required to fulfill carrier of last resort obligations should not be required to fund the cost of universal service support.

Of the methods listed above:

- Presubscribed Lines (PSLs) - SWBT is generally neutral on the use of PSLs, as this method only affects the allocation of costs among IXCs. Other methods of allocating the support costs among IXCs or providers of interstate services to end users may be appropriate but SWBT would oppose any change in methods whereby SWBT would be required to pay any substantial costs (such as the use of access revenues or MOU). The use of PSLs has been strongly opposed by AT&T in previous filings on the USF.

- All telecommunications services revenues or minutes of use (MOU) - SWBT would support this option if it is necessary to revise the base of payers and the conditions listed below are incorporated. This option is probably the easiest to administer since the FCC has ordered that revenues currently be used to allocate Telecommunications Relay Services (TRS) costs. This option should only be supported by SWBT if the type of revenues or MOU used are interstate originating toll revenues or MOU. This option should not be supported if it is based on total interstate revenues or MOU which includes the revenues or MOU that LECs/SWBT receive from access charges to IXCs. These revenues or MOU are already reported by the IXCs and to have SWBT or the other LECs also report them represents a double counting of revenues or MOU (the FCC disagreed with this point in the TRS docket and ordered that total interstate revenues, including those from access charges, be used to allocate TRS costs). Thus, we should not support the same method used to allocate TRS costs.

- Net trans - SWBT should not support this approach which was advanced by Eli Noam, Columbia University. This proposal charges an increment for every revenue transaction and places a substantial burden for payment of support on the LEC. The proposal includes local, access and toll revenues in its calculation of assessment amounts and also imposes additional and complex administration and accounting requirements on SWBT and others.

See Tabs 5C and 7 of this binder for more information related to this subject.

9) Who should administer?

SWBT supports NECA serving this role. If NECA does not serve the role, SWBT would support an independent third party as the administrator.

4 - UNIVERSAL SERVICE DEFINITION

SWBT

Widely available telephone service at reasonable rates. This obligation requires the deployment of a telecommunications network for use by the general public to accomplish two-way switched voice communication within and beyond a local calling area.

This universal service connectivity is provided by the loop, switch and interoffice facilities and meets provider of last resort requirements.

USTA

The Universal Service policy vision should promote the continued widespread availability of telecommunications services throughout the United States and universal accessibility to the advanced information superhighway. Wherever possible, this development should be determined by the forces of the competitive market, which will ensure that services are responsive to customers' needs, and that investment in America's telecommunications infrastructure will be made efficiently. Where the market cannot be relied upon, universal service policy should continue to ensure that the benefits of the telecommunications superhighway are available to all citizens.

5A - IMPLICIT SUPPORT - DEFINITION

From proposed amendments to HR3636:

"Implicit Support Mechanism - An Arrangement whereby public policy requires a provider to offer a service or to serve a class of customers but such service or class of customers require contribution from other of the provider's services or class of customers, in whole or in part."

Implicit support is composed of two predominant mechanisms:

1) Support for basic local services which is included in interstate and state access, state toll and state optional calling rates:

   - The primary example is the loop cost recovery included access, toll and optional calling rates.

   - Other overhead cost loadings assigned by separations or via rate design to access, toll and optional services may also serve to reduce the costs of local exchange service and thus support, implicitly, that service.

2) Price averaging which establishes the same price for services (state toll and access services such as the transport, local switching, etc.) across geographic areas, such as an entire state. Price averaging has been used to avoid the effect of having higher than average prices in higher cost, low volume (largely rural) areas. These higher cost, low volume areas are supported by customers using their services in higher volume/low cost (largely urban and suburban) areas.

5B - IMPLICIT SUPPORT - SIZE

ESTIMATED NATIONWIDE IMPLICIT SUPPORT
($ in Millions 000,000)

Description	Interstate	Intrastate
AVERAGE PRICING-Transport AVERAGE PRICING-Loc Sw Carrier Common Line (CCL)	$6,500M	$3,800M
AVERAGE PRICING-State Toll	N/A	$8,300M
Optional Services	--	$ ** M
TOTAL - SUPPORT IN RATES	$6,500M	$12,100M

** It is estimated that the support contributed by Optional Services could be as high as $15 Billion. Total Industry Support is estimated to be about $35 Billion (Including Optional Services support) - Equivalent to $30 /Month/Access Line.

ESTIMATED SWBT IMPLICIT SUPPORT
($ in Millions 000,000)

Description	Interstate	Intrastate	
		RECEIVES	PAYS
AVERAGE PRICING-Transport	$210M	115M	
AVERAGE PRICING-Loc Sw	$80M	$50M	
Carrier Common Line (CCL) (Includes LTS)	$240M	$440M	
AVERAGE PRICING-State Toll	N/A	800M	
Optional Services	--	$ ** M	
Net Settlements Included in SWBT customer's rates	N/A	N/A	$150M
TOTAL - SUPPORT IN RATES	$520M	$1,405M	

** It is estimated that the support contributed by Optional Services could be as high as $1.2 Billion.

5C1 - IMPLICIT SUPPORT - RECOVERY

There are many alternatives to the recovery of costs associated with Universal Service. The following describes what may be viewed as the two ends of the spectrum for recovery alternatives. One end of the spectrum for the recovery of "Universal Service" costs is:

- Continued targeted support to low income individuals and continuation of existing explicit support mechanisms, such as USF, LTS, etc.,

- Removal of "Universal Service" support from LEC prices - reduce price for services,

- Implementation of a **large** explicit support mechanism in both the federal and state jurisdiction. Based on the information estimated, the fund could be as large as **$20 to 30 Billion** for both interstate and intrastate implicit support.

Based on the size of the support it does not appear feasible to attempt sole recovery of the total amount of support through such a large explicit funding support mechanism. Therefore, a more reasonable approach on the other end of the spectrum, which is also furthers our pricing objectives, is:

- **Complete pricing flexibility**, including contract based pricing, rate rebalancing, rate deaveraging, new rate elements, such as network connection charges, EUCL increases, etc.. The intent of this pricing flexibility would be to recover the majority of the costs of Universal Service in various rates, both usage sensitive and non usage sensitive.

- **Small** amount of support funded in non-discriminatory manner.

- Targeted support to low income individuals and continuation of existing explicit support mechanisms, such as USF, LTS, etc.,

In reality the most feasible answer is probably somewhere between the two ends of the spectrum described above. This is also shown pictorially in Figure 1.

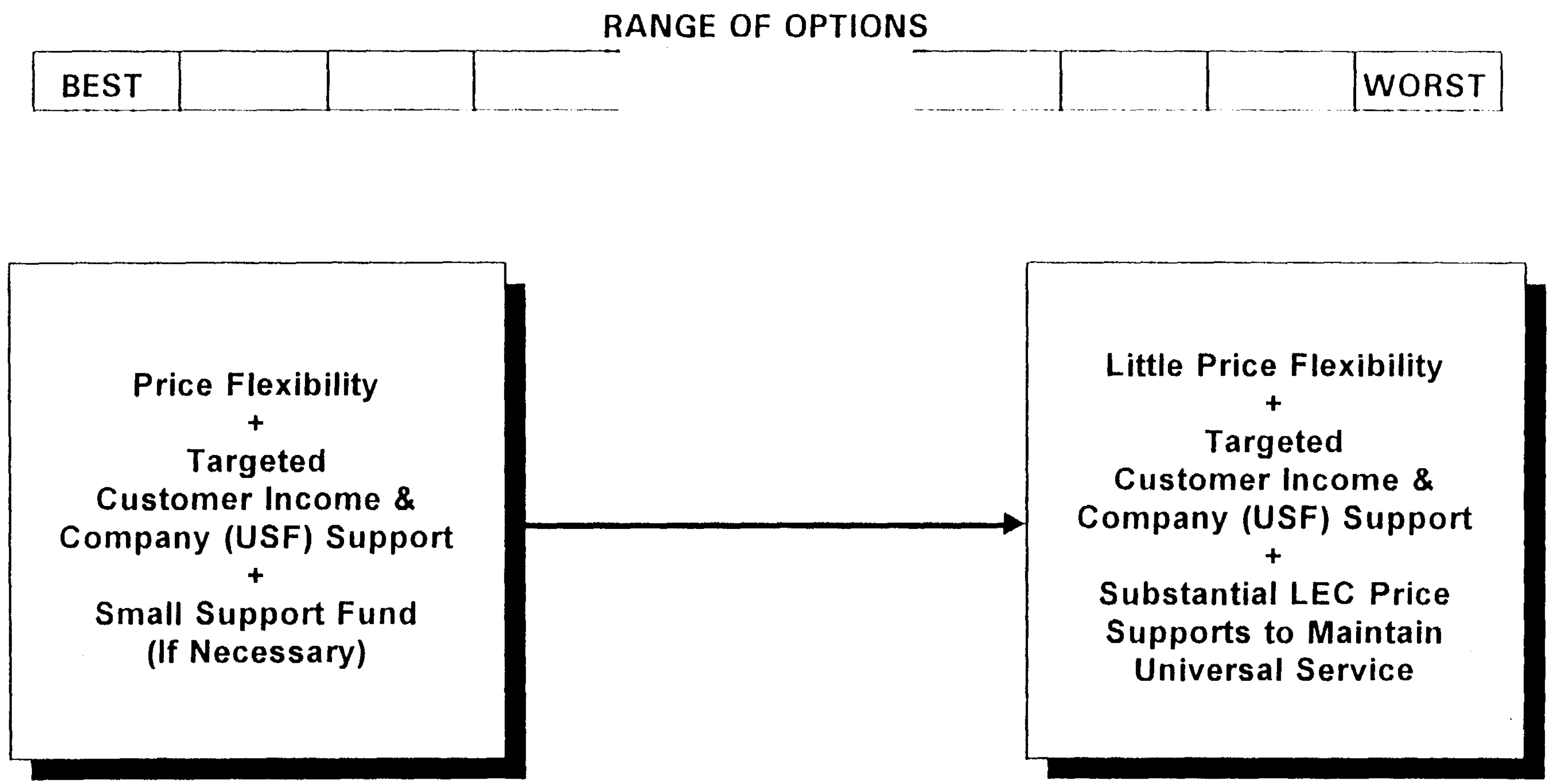
Other proposals which have surfaced are:

- A proposal by Eli Noam (Columbia University) for essentially a value added tax. At each point in the sale of a telecommunications service a "tax" would be imposed. These funds would be used to support universal service. The proposal has some appeal but is very complicated and would be difficult to administer.

- A broad based national tax. Unlikely that Congress and the Administration would propose a new tax.

Figure 1

OPTIONS FOR FUNDING PROVISION/MAINTENANCE OF UNIVERSAL SERVICE



5C2 - EXPANDED DEFINITION OF UNIVERSAL SERVICE SUPPORT TO ENCOMPASS A BROADBAND NETWORK

There is much discussion within the industry about Information Infrastructure of Superhighways and a nation of information "haves or have nots". Expanding the definition of "Universal Service" to one that provides a broadband network infrastructure would also require investigating the cost associated with such a network and how it could be funded. Several estimates have been made of the cost to provide such a ubiquitous network.

In "An 'Infostructure' For All Americans: Creating Economic Growth in the 21st Century" it is stated (pg. 3) that the Bell companies will invest in a high performance, advanced intelligent network. This network will consist of broadband fiber optic, high speed digital switches, digital compression, and other state-of-the art technologies that will allow users to access the nation's expanding computer technology. Based on the estimates of investment required and the expenses to maintain the network, this could cost up to **$135 BILLION** annually.

The Telecommunications Industries Analysis Project presented a paper at the November, 1993 NARUC Meeting entitled "Beyond Future Shock: The Need for a New Regulatory Response to Technological Change" that also provided an estimate of the investment necessary to provide a ubiquitous broadband network. Depending on the capabilities of the broadband network and the extent of deployment, the network could cost up to **$126 BILLION** (The following table provides details on the calculations of these amounts).

It is SWBT's position that this infrastructure expansion should occur and the broadband network be constructed only where the market dictates (consumers will purchase at rates that will provide for recovery of the deployed costs.)

If federal policy were to dictate the provision of such an infrastructure through telecommunications "Universal Service" policy, some portion will need to be recovered through an "infostructure" support mechanism.

5C2 - ESTIMATED "COST" OF BROADBAND NETWORK

ROW		'INFO - STRUCTURE'	TIAP 100% Capable, 100% Equipped
1.	Basic Investment	$ 450 B	$ 420 B
2.	Estimated Revenue Requirement Factor, Includes Return, Maint., Depr., Overhead, etc.	30%	30%
3.	Estimated Revenue Requirement Row 1 times Row 2	$ 135 B	$ 126 B

5C3 - IMPLICIT SUPPORT - DEFINING EXISTING LEVELS

Explicit Support

Determining the level of current explicit support is relatively straightforward, and generally can be provided by NECA. There is little industry debate regarding how to determine its size.

Implicit Support

SWBT's Goal - Focus on Pricing as the solution, Not a New explicit support mechanism which involves Costing.

- Determination of CCL revenues is straightforward but there may be much debate (among economists and others) as to whether or not this is a support mechanism for residential local service or a shared cost of all services.

- Determination of the level of overhead costs recovered from access and toll and used to subsidize local residential service.

- The level of implicit support involved in rate averaging:

  - SWBT and USTA have essentially defined this access, toll and optional service implicit support based on the current revenues less the expected competitive market revenues (i.e, an expansion of the method used to calculate the transport RIC).

    The estimates of implicit support in Tab 5B were developed in this manner. USTA has a further, more extensive study underway to analyze Traffic Sensitive Rate Disparity and its cost.

  - MCI and others (MFS) will and are arguing that the SWBT and USTA estimates of implicit support are substantially inflated. Their position is that these estimates reflect a substantial amount of contribution, inefficiency and waste which could be foregone by the LECs.

5C3 - IMPLICIT SUPPORT - DEFINING EXISTING LEVELS

MCI proposed an alternate method of determining contribution and then support.

- 1st - Develop building blocks and their costs.
- 2nd - All costs above the building block level are contributions. The Joint Board should determine the portion which is used for universal service.

MCI's approach would lead to a major cost investigation for the large LECs at the federal level.

SWBT should seek to avoid a major and contentious investigation of its costs and the inevitable debate about levels of contribution vs support (that MCI, MFS and other want) because:

- It places the LECs in a no win situation of defending their cost levels.

- It will be a protracted proceeding and will not result in a speedy resolution of the support issue.

Consequently, SWBT should focus on pricing (Interconnection Charge, Rebalancing of Rates, Pricing Flexibility, etc.) not on creating an expanded universal service fund for current implicit support.

5C4 - IMPLICIT SUPPORT - TARGETING

SWBT Positions

1. The current Ubiquitous Deployment of a Universally Available Network at reasonable rates (average rates and support to basic local rates) means that support must continue to flow to the LECs in order to maintain that network:

   - The existing explicit support (USF, DEM weighting, etc.) should continue.
   - Implicit support must be maintained through repricing (best option).

2. Targeted Support to consumers is appropriate to:

   - Insure affordable rates to low income individuals (Lifeline).
   - Insure the ability to connect to the network (Linkup).
   - Insure the availability of a service to a disadvantaged group (TRS).

   This targeted support should again flow to the LECs (for lifeline and linkup) for ease of administration and in the case of TRS, to the service provider in order to provide funds to construct and maintain the TRS network.

3. In no case should SWBT agree with the proposition that others (MCI, MFS, etc.) should receive universal service support. These companies are not the carrier of last resort who is providing a ubiquitous universally available network as are the LECs and therefore have no need for and should not receive any support.

4. Broadband expansion of the network should not be accomplished by support mechanisms. Instead, concumers should decide if, how much, and who the provider of this service will be.

6A - SUMMARY EXPLICIT IS SUPPORT - NATIONWIDE LEVELS

SUBSIDY	PAID TO	FUNDED BY	BILLED BY	SUPPORT LEVEL
USF	LECs with high unseparated loop costs - (above 115% Nation-wide avg.)	IXCs serving > .05% of Presubscribed Lines	NECA on Presubscribed Lines	$725M
LTS	NECA CCL Tariff participants	IXCs	LECs out of the CL pool additive to the CCL rate	$323M
DEM	Qualifying LECs	Qualifying LEC Access Rates	Qualifying LEC Access Rates	$259M
Lifeline	LECs; Reduces or eliminates SLC Charges for low income subscribers	IXCs serving > .05% of end Users	NECA On Presubscribed Lines	$150M
Linkup	LECs; Reduces installation charges for low Income subscribers			$15M
TRS	TRS service provider	All IS service providers based on their share of IS revenues	NECA based on IS revenue share	$30M

6A - SUMMARY EXPLICIT IS SUPPORT - SWBT

SUBSIDY	PAID TO	FUNDED BY	BILLED BY	SUPPORT LEVELS	
				RECV.	PAY
USF	LECS with high unseparated loop costs - (above 115% Nationwide avg.)	IXCs serving > .05% of Presub-scribed Lines	NECA on Presubscribed Lines	$.8M	
LTS	NECA CCL Tariff participants	IXCs	LECs out of the CL pool additive to the CCL rate		$10M
DEM	Qualifying LECs	Qualifying LEC Access Rates	Qualifying LEC Access Rates		
Lifeline	LECS; Reduces or eliminates SLC Charges for low income subscribers	IXCs serving > .05% of end Users	NECA On Presubscribed Lines	$4M	
Linkup	LECs; Reduces installation charges for low Income subscribers			$1M	
TRS	TRS service provider	All IS service providers based on their share of IS revenues	NECA based on IS revenue share		$1M

6B - EXPLICIT SUPPORT - THE UNIVERSAL SERVICE FUND (USF)

WHAT IS IT?

USF is an interstate support mechanism that provides assistance to local exchange telephone companies serving customers in areas in which the cost to provide telephone lines is relatively high. A telephone company is eligible to receive support payments from this fund if the telephone line costs for the facilities that connect customers to the switching office exceed 115 percent of the nationwide average cost of similar facilities for all telephone companies. USF is an interstate support mechanism.

PAID TO

The USF is targeted to Local Exchange Carriers whose cost per loop exceeds 115 percent of the nationwide average cost per loop.

LECs with fewer than 200,000 loops

Portion Loop Cost Between	USF Additional IS Assignment	Basic IS Assignment	Total IS Assignment
0-115% of nationwide avg.	0	25%	25%
116-150% of nationwide avg.	65%	25%	90%
Over 150% of nationwide avg.	75%	25%	100%

LECs with greater than 200,000 loops

Portion Loop Cost Between	USF Additional IS Assignment	Basic IS Assignment	Total IS Assignment
0-115% of nationwide avg.	0	25%	25%
116-160% of nationwide avg.	10%	25%	35%
161-200% of nationwide avg.	30%	25%	55%
201-250% of nationwide avg.	60%	25%	85%
Over 250% of nationwide avg.	75%	25%	100%

6B - EXPLICIT SUPPORT - THE UNIVERSAL SERVICE FUND (USF)

FUNDED BY

Interexchange long distance service providers (e.g., AT&T, MCI, Sprint, etc.) serving at least .05% of the end users/consumers with presubscribed "1 +" long distance service make support payments to this fund. The amount of support paid by each interexchange long distance service provider is based on the proportion of customers presubscribed to one company's "1 +" long distance service versus other long distance companies.

The Universal Service Fund was established through the Unity 1 Agreement. The USF was originally recovered from access users (primarily IXCs) via an additive to LECs' access rates. Essentially, to simplify the funding process and to eliminate LECs as middlemen in the recovery process, the funding mechanism was revised in the Unity 1-A Agreement. The USF is now bulk billed to the Interexchange Carriers by NECA.

USED TO

USF is used to assure the continuation of reasonable state rates for basic telephone service. It is also used to enhance economic development by upgrading facilities and rebuilding telecommunication infrastructure.

UPCOMING EVENTS

In the near future, the Federal/State Joint Board Staff will issue a Data Request to the industry that will address Universal Service Fund issues. The responses to this Request will be used to develop a Notice of Proposed Rulemaking which will evaluate possible revisions to the Fund.

REFERENCE CITE

§ 36.601

MECHANICS

The Universal Service Fund is derived from a jurisdictional expense adjustment. First, USF costs are calculated based on the 115% formula. Next, these costs are transferred from the state to the federal jurisdiction for recovery.

6B - EXPLICIT SUPPORT - THE UNIVERSAL SERVICE FUND (USF)

CURRENT USF ISSUES

1. GROWTH OF THE FUND:

a) Issues

The Joint Board recommended and the Commission has recently adopted interim rules to moderate the growth of the fund.

The interim rules began on January 1, 1994 and will continue through the end of 1995 or until a full rulemaking on USF issues can be concluded.

The Commission adopted an indexed cap for the USF in order to limit its growth during the interim period. For each of the two interim years, the USF would not be allowed to grow beyond the prior year's level, increased by a factor equivalent to the prior year's rate of growth in total number of working loops.

In 1994, the fund size was reduced by approximately $20 million as a result of these rules.

b) Positions of Others

- IXC's, Joint Board, FCC, some State Commissions:
  believe growth of the fund is erratic and excessive. Consequently, an interim cap was necessary during a comprehensive review of the USF.

- LEC industry:
  no cap was necessary; growth was appropriate and expected.

c) SWBT Position

- No cap was necessary:
  SWBT would support assigning additional small LEC costs to interstate if paid for by IXC's and others.

d) Current Status

USTA filed a P.F.R. with the FCC arguing that the FCC had no factual basis for its decision.

6B - EXPLICIT SUPPORT - THE UNIVERSAL SERVICE FUND (USF)

CURRENT USF ISSUES (continued)

2. TARGETING OF THE FUND/NEED:

a) Issues

- Should the fund go directly to the end user (consumers) or should LECs receive it?
- Should large Local Exchange Carriers receive USF assistance?
- Do LECs need support?

b) Positions of Others

- IXC's:
  LECs do not need current level of support; large LECs should be removed from the fund; support is improperly targeted and is not benefiting consumers.

- ALTS/CAPS:
  Support should flow to end users.

- Texas, Arkansas and Other Commission Staffs:
  Possibly eliminate large LECs; fund is mistargeted.

- Missouri, Michigan and Other Commission Staffs:
  Fund is benefitting consumers.

c) SWBT Position

- No change in Fund level, rules, or targeting is necessary. If any change is made, possibly large LECs could be removed.

d) Current Status

A data request has been developed by the Joint Board to evaluate 17 or more alternatives to sizing and targeting of the USF:

- Include local switching in high cost analysis.
- Include total cost in high cost analysis.
- Remove overheads from high cost formula
- etc.

It is expected that the data request will be due in June, 1994.

USTA and others will meet with the Joint Board Staff to discuss the data request on 2-24-94. Likely USTA will assist in:

- Developing standard guidelines for answering the request.
- Holding training seminars for LECs about the request.
- Summarizing and analyzing the results of the request.

CURRENT USF ISSUES (continued)

3. ALLOCATION OF USF RECOVERY:

a) Issues

AT&T recently filed a Petition for Rulemaking requesting an interim revision in the allocation of USF costs among interexchange carriers.

AT&T feels the distribution based on presubscribed lines does not accurately reflect the various IXC's shares of interexchange market.

AT&T pays approximately 75% of total USF costs.

AT&T is requesting the Commission to implement a revenue or minute based mechanism for allocation of USF costs between interexchange carriers. They are requesting this issue be addressed on an interim basis and concurrently with the Commission's upcoming General Rulemaking on the USF. AT&T recommends that each IXC's USF payment be calculated on the basis of that carrier's relative share of total IXC gross revenues for the preceding calendar year.

On January 14, 1994, thirty-six parties filed comments with the FCC in response to AT&T's Petition for Rulemaking.

Overall, parties supported AT&T's position that the Universal Service Funding mechanism must be changed. Generally, LECs and NECA argued that though the method of recovering USF should be changed, the Commission should consider this issue as part of a comprehensive review of all explicit support mechanisms.

AT&T filed a similar request on August 8, 1989.

b) Positions of Others

- Other IXC's (MCI/Sprint, etc.):
  Oppose, largely because they would pay more under AT&T's proposal. Some suggested further analysis during a comprehensive review of universal service.

- LECs:
  Most agreed that a change is necessary and that possibly revenues would result in an appropriate allocation. Most also suggested that in a comprehensive review of universal service, the base of payers should be expanded.

CURRENT USF ISSUES (continued)

c) SWBT Position

- Agreed that an interim change may be appropriate. Revenues may be an appropriate allocation and the base of payers could be expanded. If interim rules are adopted, the Commission should also consider revising the recovery of LTS to allow NECA to bulk bill it to the IXC's.

d) Current Status

No action has ever been taken by the FCC on the previous request filed by AT&T in 1989. Awaiting action by the FCC on AT&T's current request.

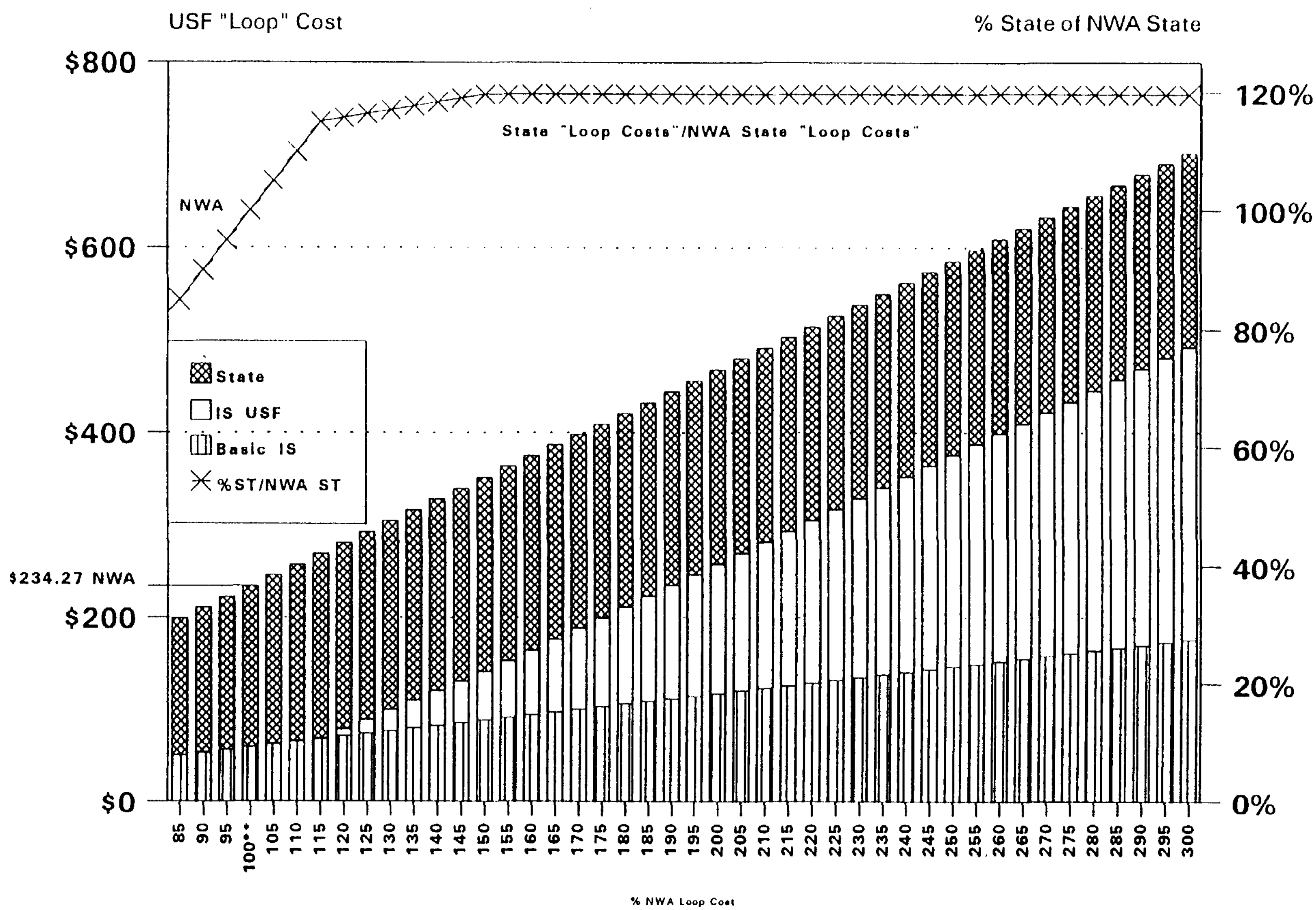
Most likely outcome is deferral by the FCC of this issue to a more comprehensive analysis of the USF by the Joint Board.

4. <u>CLASSIFICATION OF COST:</u>

a) Issue - Incentives to classify costs in order to increase USF recovery.

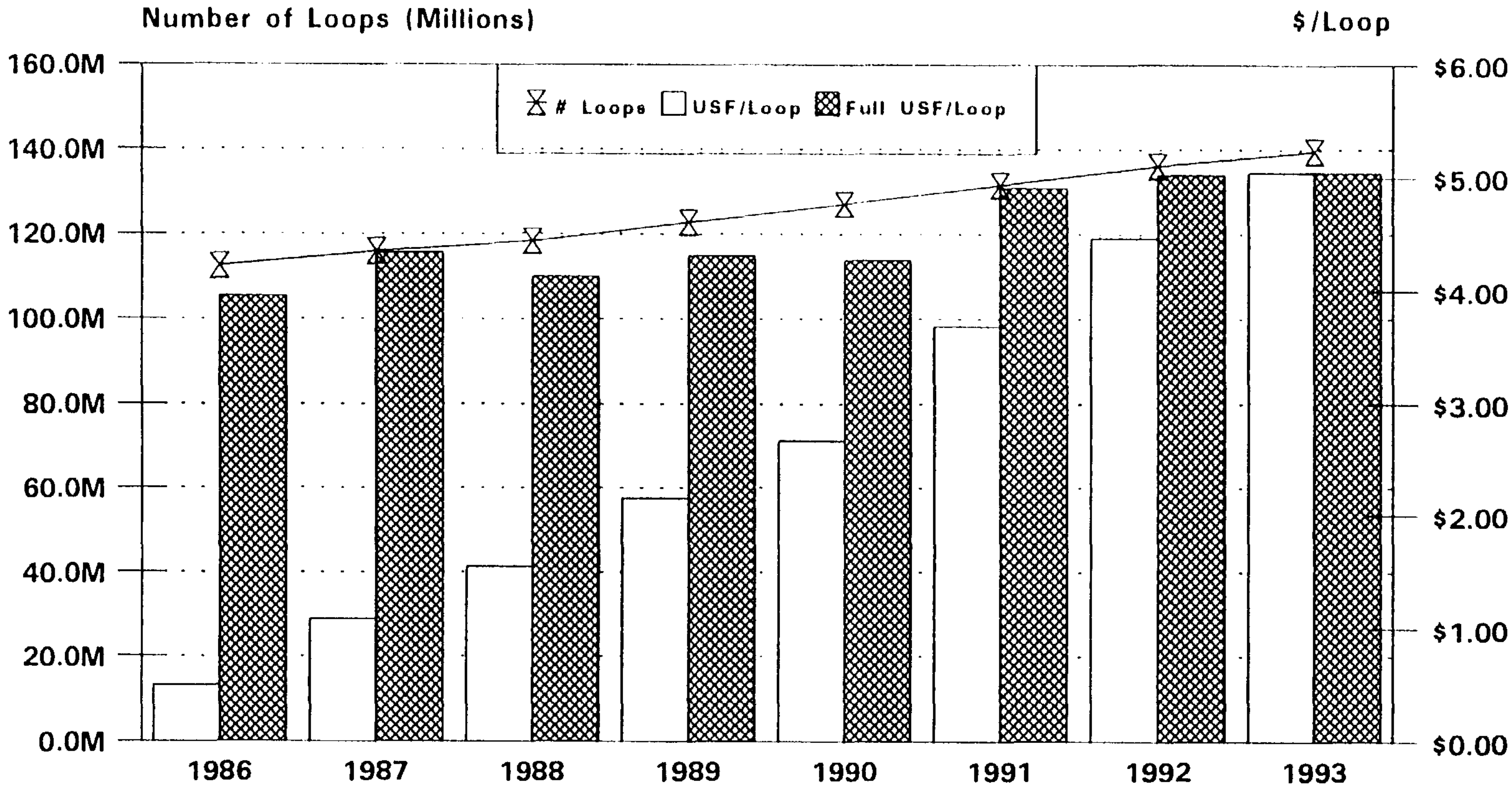
- Remote Switch vs Concentration definitional issue - RAO letter issued by the FCC after an FCC and Joint Board analysis.
- Other Billing and Collecting Expense issue - method of assigning cost jurisdictionally and between the common line and billing and collection access elements - Still an open Joint Board issue. A recommended order is expected during the first quarter of 1994.
- Broadband/VDT loop cost allocation procedures. Analysis underway by NECA and USTA.
- NECA cost methods manual was designed to resolve these types of issues.

USF Effect on Small LECs



1/2/94

Universal Service Fund
Actual and "Full" Transition per Loop



# Loops	112.6M	116.0M	118.3M	122.8M	127.1M	131.6M	136.2M	139.6M
USF/Loop	$0.49	$1.08	$1.55	$2.15	$2.67	$3.68	$4.46	$5.05
Full USF/Loop	$3.95	$4.33	$4.13	$4.31	$4.27	$4.91	$5.02	$5.05

Year (Based on 2nd prior year data)

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